

STATE OF CALIFORNIA  
Budget Change Proposal - Cover Sheet  
DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 7760	Department General Services	Priority No.
Budget Request Name 7760-003-BCP-BR-2016-GB		Program <b>6330 - STATEWIDE SUPPORT SERVICES</b>	Subprogram <b>6330028 - RISK &amp; INSURANCE MANAGEMENT</b>

Budget Request Description  
Equipment Maintenance Management Insurance Program

Budget Request Summary

The Department of General Services, Office of Risk and Insurance Management is requesting a permanent increase in expenditure authority of \$231,000 Service Revolving Fund and two permanent Assistant Risk Analyst positions. This request is to convert the current two limited-term positions, expiring on June 30, 2016, to permanent positions in order to continue to provide the necessary support to sustain and expand the Equipment Maintenance Management Insurance Program.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By Kim Hunt	Date 8/5/2015	Reviewed By Miles Burnett	Date 12/31/15
Department Director Daniel Kim	Date 12/31/15	Agency Secretary Marybel Batjer	Date 1-4-16

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA Date submitted to the Legislature

# BCP Fiscal Detail Sheet

BCP Title: Equipment Maintenance Management Insurance Program

DP Name: 7760-003-BCP-DP-2016-GB

## Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	2.0	2.0	2.0	2.0	2.0
<b>Total Positions</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Salaries and Wages						
Earnings - Permanent	0	103	103	103	103	103
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$103</b>	<b>\$103</b>	<b>\$103</b>	<b>\$103</b>	<b>\$103</b>
Total Staff Benefits	0	54	54	54	54	54
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$157</b>	<b>\$157</b>	<b>\$157</b>	<b>\$157</b>	<b>\$157</b>
Operating Expenses and Equipment						
5301 - General Expense	0	29	29	29	29	29
5302 - Printing	0	2	2	2	2	2
5304 - Communications	0	3	3	3	3	3
5306 - Postage	0	1	1	1	1	1
5320 - Travel: In-State	0	1	1	1	1	1
5322 - Training	0	1	1	1	1	1
5324 - Facilities Operation	0	24	24	24	24	24
5326 - Utilities	0	6	6	6	6	6
5346 - Information Technology	0	7	7	7	7	7
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$74</b>	<b>\$74</b>	<b>\$74</b>	<b>\$74</b>	<b>\$74</b>
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>

## Fund Summary

Fund Source - State Operations	0	231	231	231	231	231
0666 - Service Revolving Fund						
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>

## Program Summary

Program Funding						
6330028 - Risk and Insurance Management	0	231	231	231	231	231
9900100 - Administration	0	23	23	23	23	23
9900200 - Administration - Distributed	0	-23	-23	-23	-23	-23
<b>Total All Programs</b>	<b>\$0</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>	<b>\$231</b>

[illegible]



## **Analysis of Problem**

### **A. Budget Request Summary**

The Department of General Services (DGS) Office of Risk and Insurance Management (ORIM) is requesting a permanent augmentation of \$231,000 in Service Revolving Fund expenditure authority and two permanent positions to provide the necessary support to sustain and expand the Equipment Maintenance Management Insurance Program (EMMP). DGS is a fee-for-service entity. The costs for the two positions will be recovered through rates set for services provided to client departments.

The Budget Act of 2014 included Service Revolving Fund expenditure authority to fund two positions on a two-year limited-term basis to expand the EMMP and help the State of California achieve additional savings. The limited-term expenditure authority and two positions will expire on June 30, 2016. In order to maintain current service levels and continue to expand EMMP to other departments interested in participating, DGS is proposing to permanently establish the positions.

Program sustainability and growth is contingent upon the ability to permanently augment resources. Without these resources, program sustainability and expansion are not possible and no additional state savings will be achieved.

### **B. Background/History**

Many businesses, including most state agencies, purchase equipment maintenance service contracts to cover repair and maintenance costs for equipment once that equipment extends beyond a manufacturer's warranty period. These contracts can be costly.

In 2010, DGS, which is responsible for the procurement of insurance for state agencies (Government Code 11007.7), piloted an insurance program designed to replace expensive equipment maintenance service contracts. EMMP replaces an organization's multiple service contracts with a comprehensive program that consolidates the cost of equipment maintenance and repair. Once the existing warranty expires, the equipment is eligible for enrollment in the EMMP program. EMMP guarantees the insurance premium paid by an organization will be no more than 75 percent of what it previously paid in maintenance service contracts, resulting in ongoing savings of 25 percent for each participant.

Although the exact amount of money California is spending on equipment maintenance service contracts is unknown, a study from Alabama determined that the State of Alabama was spending \$429 per employee on EMMP eligible equipment. Using a more conservative figure of \$400 per employee multiplied by the state's approximately 218,000 non-university positions, DGS estimates that California is spending close to \$87 million on equipment maintenance service contracts. Consequently, if EMMP is implemented statewide, the state could reduce its costs from the estimated \$87 million currently paid annually in equipment maintenance service contracts to \$65 million for EMMP, resulting in \$22 million in annual savings.

The Budget Act of 2014 included Service Revolving Fund expenditure authority to fund two positions on a two-year limited-term basis to expand the program and help the State of California achieve additional savings. The addition of two limited-term positions has allowed the expansion of the EMMP. DGS is requesting to permanently establish the two positions to maintain current service levels, expand the program, and help the State of California achieve additional savings.

### **C. State Level Considerations**

The EMMP produces measurable cost savings and several administrative efficiencies. EMMP guarantees the insurance premium paid by an organization will only be 75 percent of what it previously paid in maintenance service contracts. Participating departments are guaranteed to save at least 25 percent of what they had spent on prior equipment maintenance service contracts.

In addition to the premium savings, EMMP provides several other benefits to participating departments. Prior to program enrollment, equipment is reviewed for insurability and cost benefits. The EMMP not only covers repairs, but covers maintenance which extends the equipment's useful life. If it is determined that replacing an item is more cost effective than repair, departments are notified. It



## Analysis of Problem

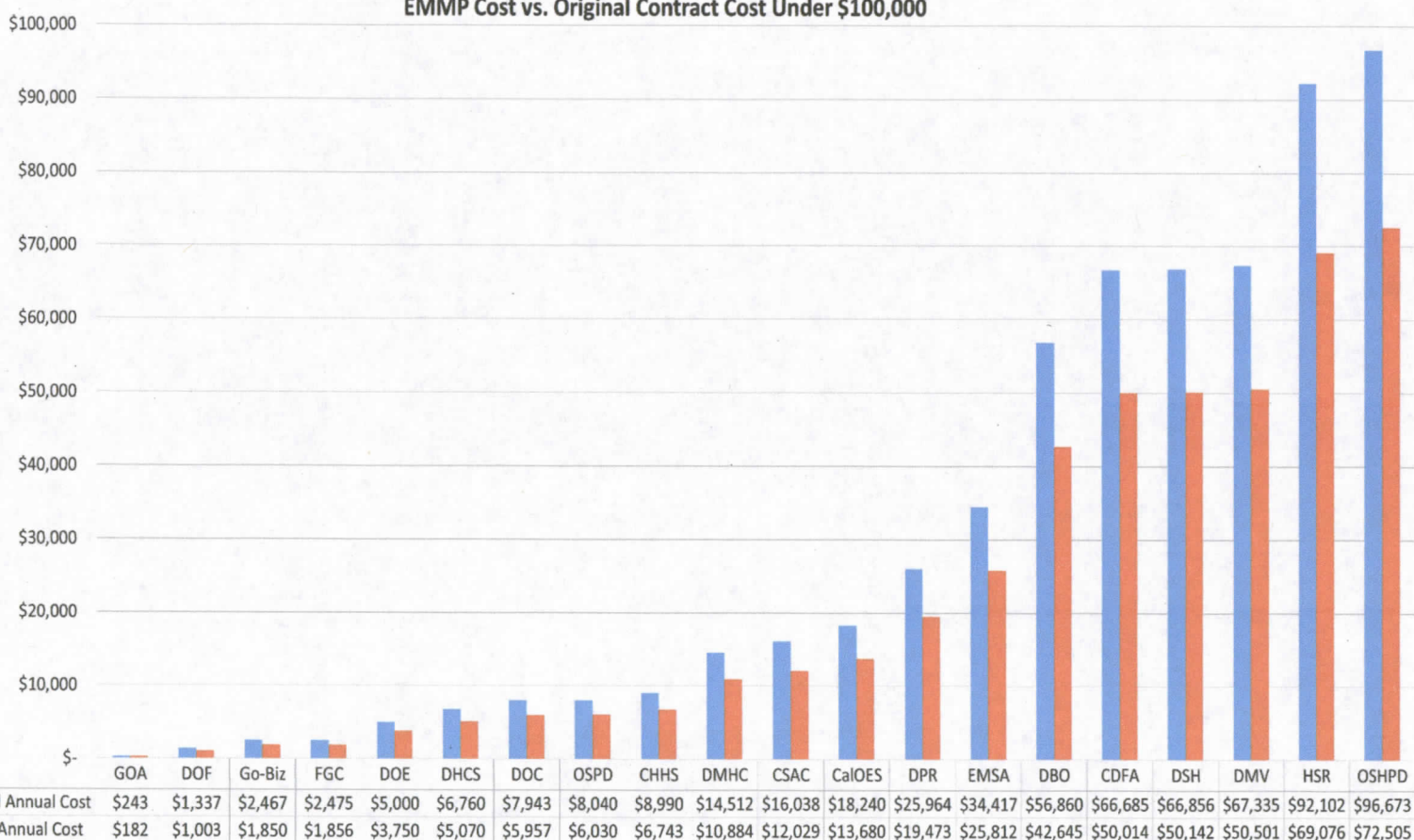
eliminates the need for each agency to prepare individual service orders for equipment repair, centralizes tracking for all insured equipment, provides the ability to request service maintenance either on line or via a toll free number, eliminates duplicate contracts, and provides better access to vendors in remote areas. Regardless of the number of repairs made to a piece of equipment, participating departments pay only one premium per year. Departments no longer make multiple payments to vendors each time service is performed. Service invoices are sent directly to the insurance provider for payment. Service is never interrupted during a budget impasse. Finally, small business participation is currently 64 percent of dollars spent for service events performed for the state; therefore, participation in this program may help departments achieve their small business goals.

## D. Justification

Since the inception of the EMMP, DGS has directed its marketing efforts towards departments to discuss the benefits of enrolling in the program. Any department that purchases service or maintenance agreements is eligible to participate. On all equipment added to the EMMP, DGS takes inventory of the departments current service agreements along with a list of potential equipment to be enrolled. The insurance provider reviews the service agreements to determine the feasibility of coverage and provides a quote and detail of coverage to DGS.

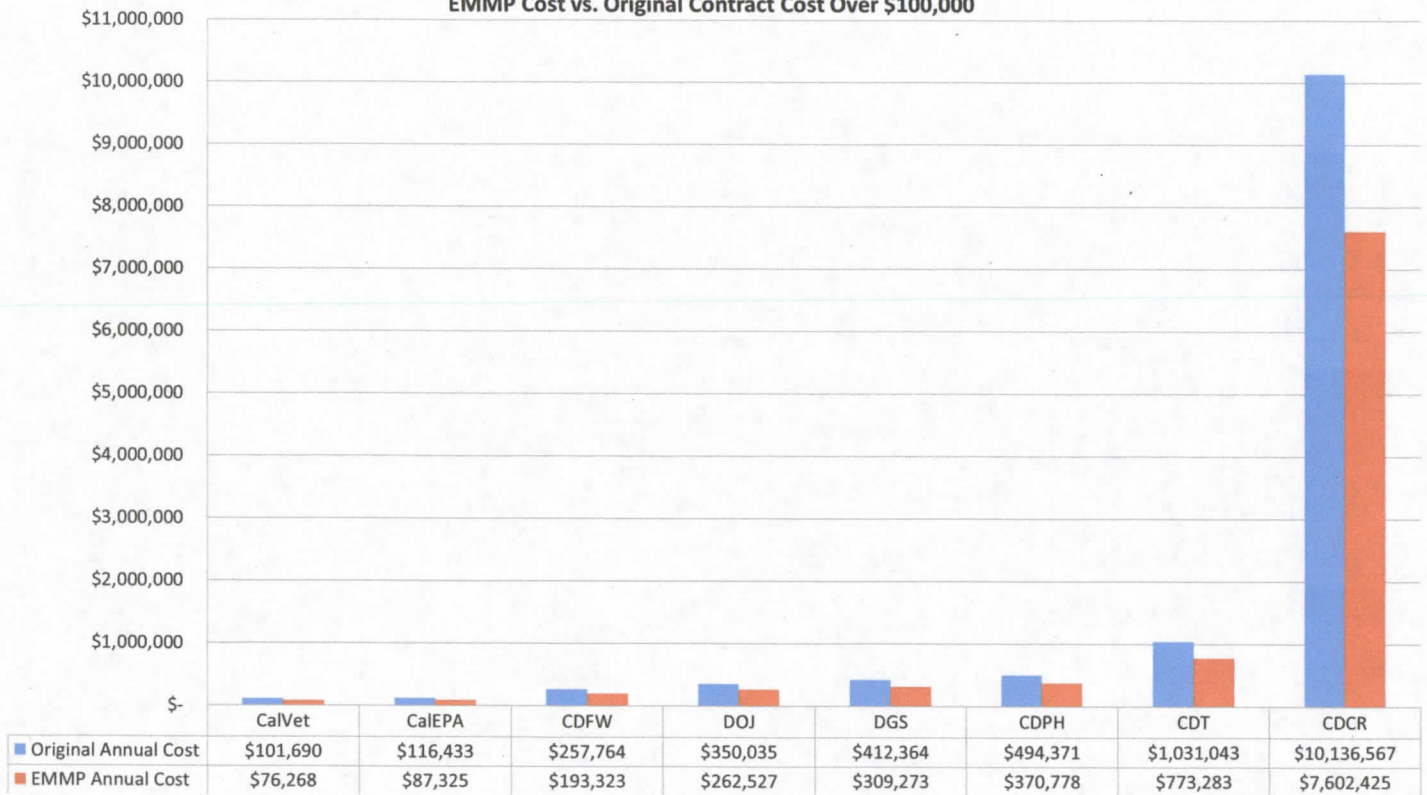
As of June 30, 2013, there were 13 departments participating in EMMP with more than 16,000 pieces of equipment covered by the program. With the addition of the two limited term positions in fiscal year 2014-15, the program has expanded to include 28 departments with more than 30,000 pieces of equipment covered by the program. The charts below show the annual savings realized for each department for fiscal year 2014-15.

**EMMP Cost vs. Original Contract Cost Under \$100,000**



## Analysis of Problem

EMMP Cost vs. Original Contract Cost Over \$100,000



EMMP has continued to grow since its inception. This growth is due to an increase in state department participation. The chart below, which depicts the original contract cost and the insurance premium paid for EMMP, shows this steady growth. The difference between the original contract cost and annual premium for EMMP represents savings to the state.

EMMP Growth 6/30/2011 - 6/30/2015



Since the program's inception, the state's annual savings has risen from \$261,280 in FY 2010-11 to \$3,374,801 in June 2014, for a total savings of \$9,836,692 to date.



## Analysis of Problem

### E. Outcomes and Accountability

Based on the time allocated to the administration of the EMMP, it is estimated that the two positions can effectively maintain the programs current service levels and support some expansion of the program; however, growth will be strategic. The requested two positions will continue to perform workload associated with EMMP which includes: marketing, contract review, enrolling, policy servicing, and program administration (Attachment A).

### F. Analysis of All Feasible Alternatives

**Alternative 1:** Approve this request for a permanent increase in expenditure authority of \$231,000 Service Revolving Fund in fiscal year 2016-17 and to permanently establish two Assistant Risk Analyst positions to provide the necessary support to sustain and expand the EMMP.

#### Pros:

- Allows DGS to maintain current service levels and achieve additional cost savings to the state.
- Eliminates the need for agencies to prepare individual service orders for repairs.
- Provides better access to vendors in remote locations.
- Centralizes tracking for all insured equipment.
- Eliminates the potential for duplicate contracts.
- Simplifies the payment process.

#### Cons:

- This will require an increase to state expenditure authority and an increase in positions.

**Alternative 2:** Do not approve this request for additional positions and expenditure authority.

#### Pros:

- This will not require additional resources.

#### Cons:

- EMMP will not be able to sustain current services or additional services to interested agencies.
- Agencies will not recognize additional savings and efficiencies.
- Staff has already been redirected from other job functions to implement this program which has caused hardship in meeting workload demands. Current workload demands do not allow ORIM to redirect existing staff; this is not a viable option.

### G. Implementation Plan

DGS has established two limited-term positions dedicated to EMMP. Upon approval of this request, DGS will permanently fill the positions effective July 1, 2016.

### H. Supplemental Information

None.

## Analysis of Problem

### I. Recommendation

Approve Alternative 1: Approve this request for a permanent increase in expenditure authority of \$231,000 Service Revolving Fund in fiscal year 2016-17 and two permanent Assistant Risk Analyst positions to provide the necessary support to sustain and expand the EMMP.